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CENTRAL INTELLIGENCE BULLETIN



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Next 1 Page(s) In Document Exempt

CENTRAL INTELLIGENCE BULLETIN

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25X1

DAILY BRIEF

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I. THE COMMUNIST BLOC

25X1

No USSR - Western Europe: The Soviet proposal of 15 July for a friendship and cooperation treaty among all European states and the United States is an attempt to undermine Western European defense arrangements and such organizations as EURATOM and the Common Market. It is also an attempt to take the diplomatic initiative and appears designed to appeal particularly to the French Government despite De Gaulle's declared intention to honor France's treaty commitments. It combines a variety of previous Soviet political, economic, and security proposals for Europe.

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*Iran: The latest eruptions of violent Arab nationalism may encourage similar efforts in Iran.

~~OK~~ The Shah, now in Turkey, is concerned over the possibility that the situation in Iran may deteriorate rapidly.

~~NO~~ Baghdad Pact: The Shah of Iran, Turkey's Foreign Minister Zorlu, and Pakistani President Mirza, meeting in Ankara, strongly endorse the US landings in Lebanon and are willing to press for additional action with regard to Jordan and Iraq.

17 July 58

DAILY BRIEF

ii

25X1

25X1 25X1

They say that unless Iraq can be salvaged, the Baghdad Pact will disintegrate. The Shah of Iran and President Mirza state that they could suffer a fate similar to that of the Iraqi leaders. [redacted]

Initial free world reaction: Western European nations, concerned over rising Arab nationalism, appear generally willing to support US moves. Asian countries allied to the Baghdad Pact or closely associated with the United States also back the American action. Japanese government spokesmen and the press, however, feel the Iraqi coup was an "internal matter"; they regret the US landings in Lebanon. Nehru is reacting very cautiously and has not followed the lead of the Indian press, which is violently opposed to US moves in Lebanon. [redacted]

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Sudan: Prime Minister Khalil is considering army action as the only means of eliminating pro-Egyptian opposition to his government. Khalil apparently fears a coalition of opposition elements, encouraged by events in Iraq, may soon attempt to form a neutralist government in the Sudan. [redacted]

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OK

India: India's foreign exchange reserves have been declining at the rate of \$15,175,000 a week since early June, compared with a decline of only about \$6,000,000 a week earlier this year. This rapid increase in the rate of decline suggests that a flight of capital has begun as a result of Indian business apprehensions regarding the outlook for the national economy. New Delhi probably will make additional cuts in imports of industrial raw materials, despite the unemployment that will result, while making an all-out effort to obtain large-scale foreign aid.

25X1

III. THE WEST

(No Back-up Material)

17 July 58

DAILY BRIEF

iv

25X1

Moscow Proposes European Friendship and Cooperation Treaty

The USSR on 15 July proposed a friendship and cooperation treaty to include the United States and all European states that desire to participate. The draft treaty is a combination of previous Soviet proposals concerning Europe. It includes security clauses, similar to those introduced at the 1955 summit conference, providing for mutual consultation if European peace is threatened and binding the members not to aid the aggressor. It incorporates the Rapacki plan for banning the stationing or use of nuclear weapons in central Europe and previous Soviet proposals for an aerial inspection zone in Europe and a cutback of foreign troops in Germany. It repeats proposals for greater cooperation among European states on economic and atomic energy matters.

This is another Soviet attempt to show that, although summit negotiations are stalled, Moscow is taking the initiative to facilitate the solution of specific issues of controversy between East and West. The inclusion of proposals designed to undermine the Common Market and EURATOM appears to be an attempt to interest the French Government, since Premier de Gaulle, although promising to honor French treaty commitments, has often indicated his distrust of supranational organizations.

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Next 3 Page(s) In Document Exempt

Iranian Revolt Feared

The violent nationalism that has erupted in the Arab world may encourage similar efforts in Iran.

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Some junior officers who have returned to Iran after receiving training in the US are dissatisfied with the inefficiency of their superiors and the nepotism which is rife in Iranian military circles. While the Shah has told American officials that he intends to promote these trained officers as quickly as practicable, he may not be able to accomplish this without also arousing dangerous dissatisfaction among the senior officers.

Impatient junior officers could ally with other groups such as supporters of General Valiollah Gharani, former G-2, whose plot to reduce the Shah to a figurehead was uncovered earlier this year. Other allies would probably be the nationalists, former followers of ex-Premier Mossadeq, dissatisfied oil workers, as well as the outlawed Tudeh party which is still covertly active in Abadan and Tehran. Following the coup that removed former Prime Minister Mossadeq in 1953, government action greatly reduced the Tudeh party's influence, especially in the army. Strikes instigated

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by leftist nationalists and Tudeh elements are expected in the near future, and [redacted] these strikes could be magnified into uncontrollable riots and disturbances.

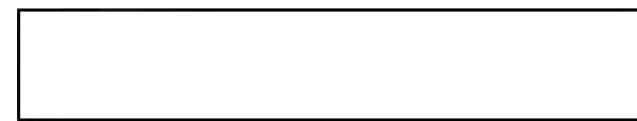
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The Shah is taking a 24-48 hour "holiday" in Turkey while awaiting word concerning the situation in Iran, and press coverage of the Iraqi situation is being censored in Iran.

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Baghdad Pact Leaders Fear Pact's Disintegration Unless
Iraq Salvaged

The chiefs of state of Iran, Turkey, and Pakistan, who met in Ankara on 15 July in what was to have been a top-level meeting of Moslem members of the Baghdad Pact, have expressed great fear that unless Iraq is restored to its former status the Baghdad Pact will cease to exist. They strongly approve US intervention in Lebanon, and also advocate allied action in Jordan and Iraq. The Shah of Iran, however, believes that intervention in Iraq should be delayed until events determine its necessity. The Shah has suggested that Iran and Turkey may move troops to Iraq's borders to prevent extension of the revolt.

The Shah recommends that the US now adhere to the Baghdad Pact, citing intervention in Lebanon as justification. The crisis in Iraq may cause the postponement of the pact's Ministerial Council meeting scheduled for 28 - 31 July in London, and its location may be changed to either Ankara or Tehran.

The Shah commented that he and Pakistani President Mirza might themselves be in danger of a fate similar to that which befell Iraq's leaders.

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Initial Free World Reaction to Iraqi Coup and US Landings
In Lebanon

Initial reaction in Europe and Asia to the Iraqi coup and US landings in Lebanon is for the most part along expected lines. Western European countries, concerned over rising Arab nationalism, have generally supported US moves. Asian countries allied to the Baghdad Pact or otherwise closely associated with the United States also seem willing to back the American actions. The "neutralist" countries are concerned more with the possibility of World War III than with the rights or wrongs of events.

The progovernment press in Britain and the French press take the line that Arab nationalism would not have reached present proportions if the West had taken firmer action at an earlier date. They support US moves in Lebanon. The independent Italian press view coincides with that in Britain and France, but Premier Fanfani has expressed his concern over the American steps. Criticism of American intervention comes mainly from socialist opposition elements in Britain and West Germany, which fear that it will hinder peacemaking efforts in the Middle East and lead to war. The British Labor party will not vote against the government, however.

Indian Prime Minister Nehru has confined himself to statements that intervention by "outside" powers could create "great danger of world war." The Hindustan Times, informal mouthpiece of the government, apparently has not expressed itself as yet. Other influential Indian papers, however, describe the US intervention as "insanity," "a flagrant breach of international law," and as reducing the UN charter to a "mockery." Pakistani reaction has been limited as a result of President Mirza's absence in Turkey, but is generally favorable.

Government spokesmen in South Korea and Taiwan have stanchly supported the US troop landings.

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Japanese Foreign Minister Fujiyama, possibly reflecting a view that pro-Nasir Arab nationalism is in the ascendancy and that efforts to hinder this rise could disrupt world economic patterns, has opposed intervention and called for the withdrawal of US troops as soon as possible.

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Indonesia Threatens Appeal to United Nations on Foreign Aid to Dissidents

Indonesian Foreign Minister Subandrio has informed the American ambassador in Djakarta that the cabinet is considering an appeal to the United Nations against foreign aggression, in view of continued foreign air activity on behalf of the North Celebes dissidents. Subandrio said a B-26 had attacked three North Celebes towns on the night of 14-15 July. He said the reaction of President Sukarno and the cabinet is so strong that, unless the attacks stop, a positive decision on a UN appeal is likely. Indonesia's permanent representative to the United Nations, Ali Sastroamidjojo, arrived in Djakarta on 14 July for consultations.

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The Indonesian Foreign Ministry blames Nationalist China and the Philippines for these strikes, and Subandrio did not imply US involvement; he stated, however, that any evidence submitted to the UN would include the diary of the American pilot who was shot down on 18 May while flying for the dissidents, as well as labels from arms crates showing shipment from Taiwan via Clark Field in the Philippines.

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Next 1 Page(s) In Document Exempt

Indian Financial Crisis

The rapid decline of India's foreign exchange reserves in recent weeks suggests that a flight of capital has begun as a result of Indian businessmen's apprehensions regarding the outlook for the national economy. The reserves have declined at the rate of \$15,175,000 a week since early June, after declining at the rate of only about \$6,000,000 a week during early 1958. They stood at the dangerously low level of \$442,400,000 on 4 July.

The government has initiated a major export drive in an attempt to bolster India's financial position. It has reduced or eliminated export duties on a number of products and is requiring all sugar refineries to sell a part of their product abroad at a loss in order to earn foreign exchange. Import restrictions have been made even more stringent, and the government reportedly plans to make imports scheduled for the six-month licensing period ending on 30 September last for the following three months as well.

Such a drastic cut in imports will force many factories to curtail production because of shortages of imported raw materials and parts. The government may decide, however, that increased unemployment is more acceptable than a third cut in the goals of the Second Five-Year Plan (1956-61), especially since nearly all the major development projects are well under way. New Delhi recognizes that import restrictions are only a stopgap measure, and will make an all-out effort to obtain large-scale foreign aid before abandoning the goals of the plan.

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